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C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 002667

SIPDIS

NSC FOR TSHANNON AND CBARTON
ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD

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SUBJECT: CNPC EXECUTIVE'S THOUGHTS ON VENEZUELA

REF: CARACAS 02387

Classified By: Economic Counselor Andrew Bowen for Reason 1.4 (D)

SUMMARY

[11.](#) (C) Gong Xun Lu, China National Petroleum Corporation (CNPC) America's President and General Manager of Sorifules Sonoven visited the Embassy on September 1 for a visa interview and a courtesy call with the Ambassador. During the wait for his visa interview, Lu told the Petroleum Attache (Petatt) that he expects the Orimulsion project, a joint venture between CNPC and PDVSA, to be on line by the end of the year or February 2006. He complained about the quality of the Venezuelan labor force. In addition, he listed a number of concerns regarding the migration of the Operating Service Agreements to joint venture companies. The Ambassador probed Lu during the courtesy call about possible joint action between our respective embassies and companies on energy issues. Lu responded enthusiastically that there were a number of shared concerns and promised to raise the issue of cooperation with the Chinese ambassador. He also said CNPC would engage its U.S. counterparts. END SUMMARY

ORIMULSION

[12.](#) (C) Lu began his conversation with Petatt by explaining that he wears two hats. As CNPC America's President, he supervises CNPC operations throughout the Americas. (NOTE: Lu had requested an expedited visa appointment because he has to travel to Florida to sign settlement papers in a suit between Citibank and CNPC this month. END NOTE) In addition, he is the General Manager of Sorifules Sonoven, a joint venture with PDVSA for the production of Orimulsion, an emulsion containing 70 percent bitumen and 30 percent water that is used primarily as a fuel for power plants. Lu complained about the Orimulsion project. He said he is constantly asked to sign off on every little detail in the project. He said the project would not be completed until the end of the year or February 2006.

[13.](#) (C) He blamed the delay on the poor quality of the Venezuelan work force. He claimed the workers only worked five hours a day since they spent two hours being transported to and from the site and one hour for lunch. He said the project suffered a month long strike at one point. In order to speed production, Lu tried introducing a night shift as is commonly done in China. However, the experiment was a disaster. Quality was poor and he quickly gave up on the idea. He also complained that new Venezuelan labor laws pushed worker costs up by 70 percent but did not elaborate. As a result, the project will cost 400 million USD. Lu claimed the same project in China would have cost 200 million USD.

JOINT VENTURE COMPANIES

[14.](#) (C) As reported in Reftel, eight foreign companies, including CNPC, signed transitory agreements to migrate their operating service contracts to joint venture companies in which PDVSA has a majority stake. Lu stated he does not believe the migration will take place by year end as the GOV has announced. He speculated the GOV will actually try to finish the migration talks by November due to the upcoming congressional elections. However, when asked, he admitted that it would be impossible to finish the talks by the end of the year, much less November.

[15.](#) (C) Lu repeatedly told Petoff that CNPC did not have any problem signing the transitory agreement and that it was used to working under a joint venture structure. He said the company fully realized that joint ventures were less efficient and drove up project prices. He said if CNPC could operate with joint ventures in Sudan and Kazakhstan it could do the same in Venezuela. When Petoff noted there were a number of troubling issues that still needed to be dealt with prior to the migration, Lu quickly agreed and listed several in quick succession.

16. (C) According to Lu, one of the biggest problems with a migration to a joint venture company is that that new entity will be a state company. As a result, its budget will be subject to approval by the National Assembly. Lu also noted it was not clear how the new foreign currency law would affect the joint ventures. It is possible that shareholders in the company would be paid in bolivars rather than dollars. In addition, it was not clear to him if the company would have to turn over its dollar revenues to the central bank. Lu also said valuing the OSA's assets would be a major challenge. Finally, he thought IOCs would never accept the GOV's proposed language barring international arbitration. Lu said it was clear that any company that challenged the GOV in Venezuelan courts would lose no matter how meritorious their claim.

WORKING TOGETHER

17. (C) Following his visa interview, Lu paid a courtesy call on the Ambassador. During the brief conversation, the Ambassador probed Lu about possible cooperation between the United States and China on areas of mutual interest in the field of energy in Venezuela. Lu responded enthusiastically that there were a number of shared concerns and quickly ran through the list of concerns he shared with Petoff. He repeatedly said U.S. and Chinese oil companies have many of the same concerns vis a vis the GOV. He stated he had a close relationship with the Chinese ambassador to Venezuela, Yigie Ju, and promised to raise the issue of cooperation with the U.S. with Ju when he meets with him next week. He also said CNPC would begin to engage its U.S. counterparts as well. (COMMENT: Lu seemed to genuinely welcome the idea of possible cooperation between the U.S. and China on energy issues in China. When Petoff sounded him out on meeting his counterpart in the Chinese embassy, Lu quickly offered to help set up a meeting. END COMMENT.)

BIO NOTES

18. (C) Lu is 48 years old and is married with one son. His wife and son stayed with him for two months this summer in Caracas but recently returned to Beijing. In 1982 Lu worked for Exxon for one year in Houston in the Far Eastern division. The work assignment contained a heavy training component. He also worked previously in Sudan. He speaks English well but with a heavy Chinese accent. He has travelled to the U.S. repeatedly but usually visits either Houston or Los Angeles. He is looking forward to visiting New York for the first time in the next few weeks. Personally, Lu is very outgoing, pleasant, and polite. To sum up, he is the type of person that you would love to have as a neighbor.
Brownfield